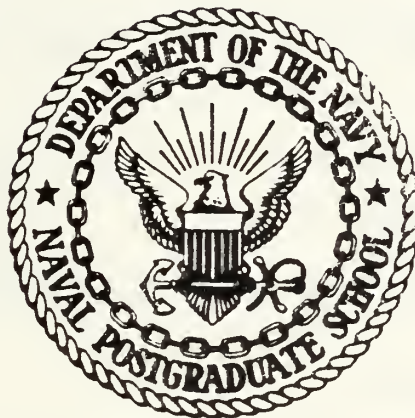


NAVAL POSTGRADUATE SCHOOL

Monterey, California



THESIS

BUDGETING FOR NONCONSUMABLE ITEMS AT
MARINE CORPS LOGISTICS BASE, ALBANY, GEORGIA

by

Frederick C. Williams, Jr.

March 1983

Thesis Advisors: K. E. Euske/J. F. Mullane

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Budgeting for Nonconsumable Items
at
Marine Corps Logistics Base, Albany, Georgia

by

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ABSTRACT

During fiscal year 1983 the Marine Corps implemented Phase II of the Nonconsumable Items Program. The intent of the program is to provide a single wholesale manager for depot level repairable components and a single wholesale stock for all users. Although general financial guidance such as reimbursement and credit criteria have been provided in Department of Defense instructions, specific methods of budgeting and financial accounting are at the discretion of the individual services. This thesis describes the method currently employed within the Marine Corps at Marine Corps Logistics Base, Albany, Georgia. Alternative methods are discussed including major advantages and disadvantages of each. The thesis concludes with recommended changes for budgeting and financial accounting methods for the Nonconsumable Items Program. The conclusion is that stock funding of the Nonconsumable Items Program would provide flexibility, simplicity and is achievable within the current appropriations structure.

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I. INTRODUCTION

A. PURPOSE

During fiscal year 1983 phase II of the Nonconsumable Items Program was implemented within the Department of Defense. The intent of the program is to provide a single wholesale manager for depot level repairable components and a single wholesale stock for all users.

Within the Marine Corps, the Inventory Control Point, Marine Corps Logistics Base, Albany, Georgia has been designated as the program manager for the Nonconsumable Items Program. As such Marine Corps Logistics Base, Albany is responsible not only for inventory accountability but also the budget and financial accountability of the program.

General financial guidance such as reimbursement and credit criteria have been provided within the Department of Defense instructions. Specific methods for budgeting and financial accounting are the responsibility of the individual services. Marine Corps financial management of the Nonconsumable Items Program currently involves the use of two appropriations which may or may not best serve the management needs of Marine Corps Logistics Base, Albany to support the program. This thesis will review existing procedures used for budgeting and financial accounting of the Nonconsumable Items Program and present alternative methods, with advantages and disadvantages, that may be employed by Marine Corps Logistics Base, Albany.

B. NONCONSUMABLE ITEMS DESCRIPTION

Nonconsumable items may be segregated into principle end items and end item components that are repairable. Principle end items are major items of equipment such as vehicles, tanks, or artillery pieces. The repairable end item components are frequently referred to as depot level repairables since they are usually returned to a depot maintenance facility for repair. These items may be repaired by use of civilian contract services as well. Throughout this paper the terms nonconsumable items and depot level repairables are used interchangeably. Since the Nonconsumable Items Program is concerned with repairable end item components and not end items.

C. RESEARCH METHODOLOGY

The research method for this thesis consisted of discussions with managers associated with the program, and review of documents and instructions primarily within the Department of Defense. The intent and purpose of appropriations and their limitations is a central focus to the review of existing procedures. During the research phase interviews were conducted with individuals at Marine Corps Logistics Base, Albany. Applicable instructions concerning the Nonconsumable Items Program were reviewed, and Department of the Navy financial management instructions were researched. Finally, a literature search concerning control systems was conducted.

D. THESIS ORGANIZATION

Chapter II provides a description of the Nonconsumable Items Program. Included is the background and intent of the program for both wholesale and retail activities. Also, the

chapter reviews the financial management procedures appropriations affected, budgeting requirements and the flow of funds into and out of the program. Chapter III describes how the program is currently established at Marine Corps Logistics Base, Albany. This includes both the wholesale and retail functions that are performed by Marine Corps Logistics Base, Albany. Chapter IV presents several alternatives that may be considered other than existing procedures. Both advantages and disadvantages of each alternative are also presented. Chapter V provides a summary, conclusions and recommended changes to the Nonconsumable Items Program procedures and methods of management. The appendix contains definitions of significant terms used in the text.

II. THE NONCONSUMABLE ITEMS PROGRAM

A. INTRODUCTION

This chapter describes the Nonconsumable Items Program in order to provide a basis to evaluate and determine alternative methods for financial management of nonconsumable items discussed in subsequent chapters. Included is a discussion of the background of the program, the financial management concept, appropriations involved, the flow of funds, and budgeting requirements.

B. THE NONCONSUMABLE ITEMS PROGRAM

1. Wholesale Responsibilities

In February of 1974 the Joint Logistics Commanders (JLC) chartered a Nonconsumable Item Subgroup to eliminate unnecessary duplication in the management and logistics support of nonconsumable items used by more than one service (multiused nonconsumable items). On 30 March 1974 the Deputy Secretary of Defense issued a memorandum to the Secretaries of the Military Departments to continue the JLC ongoing effort but to observe the following guidance.

[Ref. 1]

1. All nonconsumable items used by more than one service would be identified and reviewed in order to determine the service that would be the material manager.
2. Assignment of the materiel manager would be weighted heavily in favor of the service with the largest technical and depot maintenance capability supporting the item.

3. Assignment of materiel management responsibility would include computation of replacement and overhaul requirements; budgeting and funding; procurement; receipt storage and issue; depot maintenance; cataloging and disposal. Piecemeal assignments of the functions would not be given to any service.

The JLC developed a two phase program which was approved by the Office of the Assistant Secretary of Defense on 5 February 1975. Phase I of the program resulted in wholesale management responsibility of each nonconsumable item being assigned to a lead service. These activities are referred to as Primary Inventory Control Activities (PICA). Under Phase I the functional responsibilities were limited to catalog, procurement, disposal and depot level maintenance authority. During Phase I each supported service continued to manage wholesale stocks of nonconsumable items. The Marine Corps Logistics Base (MCLB) Albany, Georgia was designated the Primary Inventory Control Activity for items which the Marine Corps was assigned wholesale management responsibility.

On 1 October 1982 Phase II of the program was implemented which added additional responsibilities to each Primary Inventory Control Activity. These were the assignment of a single wholesale manager for each depot repairable component and wholesale stock for all users.

With the implementation of Phase II, Marine Corps Logistics Base Albany, as the Marine Corps Primary Inventory Control Activity, became the wholesale manager for approximately 1990 depot repairable components. Of these about 1720 are single service used, i.e. Marine Corps only, and 270 are multiservice used. [Ref. 2]

2. Retail Responsibilities

Activities that perform the retail functions within the individual services are designated as Secondary Inventory Control Activities (SICA). Because Marine Corps Logistics Base, Albany is the Inventory Control Point (ICP) for the Marine Corps, it is also designated as the only Secondary Inventory Control Activity for the Marine Corps. As a Secondary Inventory Control Activity, Marine Corps Logistics Base, Albany manages approximately 4200 depot repairable components. The wholesale manager (Primary Inventory Control Activity) for about 2210 of these items is a service other than the Marine Corps. [Ref. 2] The remaining 1990 are those identified above which Marine Corps Logistics Base, Albany is the Primary Inventory Control Activity and the only wholesale manager.

C. FINANCIAL MANAGEMENT CONCEPT

The financial management of the Nonconsumable Items Program is predicated on a fully reimbursable system where all issues from Primary Inventory Control Activity wholesale stocks to a Secondary Inventory Control Activity are billed at standard prices. The return of unserviceable nonconsumable items to Primary Inventory Control Activities from the Secondary Inventory Control Activities is significant to the operation of this concept. In this regard unserviceable items may be one of two conditions: repairable or not repairable. Credit (refund) is allowed Secondary Inventory Control Activities for repairable unserviceable items returned to a Primary Inventory Activity when a funded requisition has been submitted by a Secondary Inventory Control Activity. The criteria for issuing credit has not been standardized among the Primary Inventory Control Activities. The Marine Corps intends to provide credit only

after the returned item has been inspected and its condition as repairable has been verified. Other Primary Inventory Control Activities do not intend to inspect the items but merely issue a credit when an unserviceable item is received. [Ref. 3] The services have agreed on the criteria for the amount of credit to be provided to Secondary Inventory Control Activities. This agreement allows for a credit of 65% of the standard price allowed to Secondary Inventory Control Activities for unserviceable repairable carcasses when a funded requisition has been submitted. [Ref. 4]

D. MARINE CORPS APPROPRIATIONS

The funding of the Nonconsumable Items Program within the Marine Corps involves two appropriations: the Procurement Marine Corps appropriation and the Operations and Maintenance Marine Corps appropriation.

The Procurement Marine Corps appropriation is a multi-year appropriation intended for funding of investment type items. Obligational authority appropriated in any given year is available for that year and the subsequent two years. Repairable nonconsumable items are considered investment items and as such their procurement, either wholesale or retail, is financed using Procurement Marine Corps appropriated funds. Funds requested to meet all requirements are subject to review at the Department of Defense, Office of Management and Budget, and Congressional levels. Due to the annual appropriation process, budget reductions frequently occur. Therefore it is possible that sufficient funds are not always available to meet all requirements.

The Procurement Marine Corps appropriation has a reprogramming threshold of \$5 million which can impact on the flexibility of meeting necessary requirements when the program is not fully funded. [Ref. 5] Specifically, if requirements in excess of \$5 million occur after the appropriation process, the only means of obtaining additional funds are through supplemental appropriation requests that must be submitted to Congress.

The Operations and Maintenance Marine Corps appropriation is used for financing the repair of unserviceable nonconsumable components for return to ready for issue wholesale stocks. The Operations and Maintenance Marine Corps appropriation is an annual appropriation for which the obligational authority is only available in the year in which it is appropriated.

E. FUNDS FLOW

In the capacity of both a Primary and Secondary Inventory Control Activity, Marine Corps Logistics Base, Albany obligates funds and expends funds, issues credits and receives funds.

1. Primary Inventory Control Activity

As the Marine Corps Primary Inventory Control Activity, Marine Corps Logistics Base, Albany receives both Procurement Marine Corps funds in the form of an allotment and Operations and Maintenance Marine Corps funds as part of its operating budget from Headquarters Marine Corps. The Operations and Maintenance funds are used for repair of unserviceable nonconsumable items by either industrial funded military activities or civilian contract services. The Procurement Marine Corps funds are expended for procurement of new and replacement items. Marine Corps Logistics

Base, Albany also expends Procurement Marine Corps funds when authorizing customer credits for returned items. These funds however, are maintained in a central allotment held at Headquarters Marine Corps. As a Primary Inventory Control Activity, Marine Corps Logistics Base, Albany also receives funds from customers in the form of funded requisitions and Military Interdepartmental Purchase Requests (MIPR). Regardless of the source of these funds, they are credited to the Procurement Marine Corps appropriation when received.

2. Secondary Inventory Control Activity

As the Marine Corps Secondary Inventory Control Activity, Marine Corps Logistics Base, Albany receives Procurement Marine Corps funds in the form of an allotment and expends these when requisitioning items from a Primary Inventory Control Activity other than itself. Marine Corps Logistics Base, Albany receives credits to this same allotment when unserviceable assets are returned to other Primary Inventory Control Activities. There is no exchange of funds, either real or statistical, between the Primary and Secondary Inventory Control Activity functions at the Marine Corps Logistics Base, Albany. In other words, the Marine Corps Logistics Base does not buy from itself. Figure 2.1 shows the activities providing funds to and receiving funds from Marine Corps Logistics Base, Albany.

F. BUDGETING

Marine Corps Logistics, Base Albany is required to submit Procurement Marine Corps and Operations and Maintenance Marine Corps budgets to Headquarters Marine Corps. As a Primary Inventory Control Activity, Marine Corps Logistics Base, Albany must determine requirements for new items, estimate washout rates for all items managed, and

MCLB, Albany -- PICA

Funds In

PMC Allotment from HQMC

O&MMC Operating Budget from HQMC

Funded requisitions from SICAs

Funds Out

PMC Allotment for procurement

O&MMC Operating Budget for repair

Credits to SICAs, HQMC allotment

MCLB, Albany -- SICA

Funds In

Credits from FICAs for returns

Funds Out

PMC Allotment from HQMC

Figure 2.1 FUNDS FLOW.

determine the number of unserviceable repairable items to be received in a given year. This is accomplished using projected requirements submitted by Secondary Inventory Control Activities and a process called the stratification. The stratification is a program that computes requirements considering such variables as historical usage, projected unserviceable returns, receipts from current replenishment actions and other inventory data resident in existing files. Using the stratification information and user input, Marine

Corps Logistics Base, Albany prepares that portion of the Procurement Marine Corps budget to support Primary Inventory Control Activity procurements. This includes the anticipated credits to Secondary Inventory Control Activities for unserviceable repairable returns. Combining the information from the stratification process and user requirements with average repair costs and contract repair requirements the Operations and Maintenance Marine Corps budget requirements to support the repair of unserviceable returns is developed for submission to Headquarters Marine Corps.

The Procurement Marine Corps requirements to support the Secondary Inventory Control Activity function are developed in a similar manner as those for the Primary Inventory Control Activity. The major difference is that the anticipated credits received from the return of unserviceable repairable returns must be considered and the total Procurement Marine Corps requirement reduced by that amount.

G. SUMMARY

This chapter describes nonconsumable items and provides a general background of the Nonconsumable Item Program development within the Department of Defense. Further, it contains a description of the program as it applies to the Marine Corps and particularly Marine Corps Logistics Base, Albany, Georgia. The concept for financial management of the program, the affected Marine Corps appropriations, the funds flow, and the budget process process have been described in order to provide the necessary background to evaluate the adequacy of the financial process.

III. EXISTING PROCEDURES

A. INTRODUCTION

This chapter describes various methods and procedures used for management of the Nonconsumable Items Program. The description includes a review of the intended uses of the appropriations involved and how they are applied to the Nonconsumable Items Program design within the Marine Corps.

Frequently, existing appropriations, procedures, and systems are not designed to accommodate new programs, therefore it is necessary to provide an evaluation of the new program within the framework of existing procedures. In the case of the Nonconsumable Items Program the appropriation structure was devised long before centralized management of wholesale nonconsumable items was proposed. Additionally, the interrelationship of the program, with agencies both internal and external to the Marine Corps, raises the question of should evaluation be an ongoing process to ensure that all elements of the system support the program.

This chapter first examines procedures used by . Primary Inventory Control Activities. This includes the funding of repair, the payment of credits to Secondary Inventory Control Activities, and the appropriation relationships. Secondary Inventory Control Activity funding of procurement and the intent of the Appropriations is also examined.

B. APPROPRIATIONS

As discussed above the Nonconsumable Items Program within the Marine Corps involves the use of two appropriations, the Procurement Marine Corps and Operations and

Maintenance Marine Corps. In order to evaluate the program itself it is first necessary to establish the purpose and intent of these two appropriations. To do this the terms expense and investment must be defined because they are the key words to establish the purpose of each appropriation. The Navy Comptroller Manual provides the following definitions for expense and investment. [Ref. 6]

"Expenses are costs of resources consumed in operating and maintaining the Department of Defense"... this ... "includes expendable supplies and maintenance, maintenance repair overhaul and rework, assemblies, spares and repair parts which are not designated for centralized individual item management by an inventory control point."

Investment is ... "costs of capital assets of the Department of Defense" Defense"... this ... "includes all items of equipment including assemblies, spares and repair parts which are subject to centralized individual management and asset control by an inventory manager or inventory control point"... and excludes items designated for stock fund management."

The Navy Comptroller Manual also delineates the purposes for which the Procurement Marine Corps and Operations and Maintenance Marine Corps appropriations are to be used. The manual states that the Operations and Maintenance appropriation is limited to funding support which meets expense criteria and the Procurement appropriation is to be used as necessary for the procurement of investment items.

Based on the definitions provided, nonconsumable items meet investment criteria and should be procured using the Procurement appropriation and the repair of these items is an expense that should be funded by the Operations and Maintenance appropriation. [Ref. 6]

C. PROCUREMENT VERSUS REPAIR

Knowing the intent and purpose of the appropriations does not necessarily clear the issue of whether the procedures used are adequate or appropriate. For instance, what the Secondary Inventory Control Activities buy from the Primary Inventory Control Activity is not very clearly defined. When a Secondary Inventory Control Activity sends a funded requisition or Military Interdepartmental Procurement Request (MIPR) to a Primary Inventory Control Activity and an unserviceable item is not returned, it is clear that the secondary activity is procuring an investment item. In this instance the funds received by the primary activity should be credited to the procurement account to fund the replacement of the item issued or procure one if none are on hand. However, when the Secondary Inventory Control Activity returns an unserviceable repairable item along with the funded requisition the issue is clouded somewhat. At issue is whether the Secondary Inventory Control Activity is paying for procurement. Currently the procedures call for all funds received by Marine Corps Logistics Base, Albany to be credited to the Procurement appropriation for: [Ref. 4]

1. Credit return to Secondary Inventory Control Activities after an unserviceable repairable carcass is returned,
2. The balance of the funds after credit return will be used for procurement.

It can be argued that the Secondary Activities are buying a used item, similar to buying a used car, and therefore this is appropriately an investment. On the other hand, it can be argued that the Secondary Inventory Control Activities are paying the cost of repair and therefore the expenditure is an expense. This latter position appears to be the

intent of the program and is supported by the following paragraph from Chapter 6 of Marine Corps Order P4410.22B which discusses financial management of the Nonconsumable Items Program. [Ref. 1]

"All serviceable nonconsumable items, issued by the PICA to the SICA will be on a reimbursable basis and will be billed at 100 percent of standard price. For stock replacement requisitions, the SICA will receive a Net Credit for the difference between the standard price and actual experienced repair cost for all unserviceable assets returned to the PICA. When actual repair costs aren't available, a percent credit will be allowed which reflects the PICA's dollar weighted average repair cost for SICA items."

From this it appears that to credit all funds received by Marine Corps Logistics Base, Albany as a Primary Inventory Control Activity to the Procurement Marine Corps appropriation is inappropriate. In those instances where an unserviceable repairable carcass is returned and a funded requisition has been submitted, the Operations and Maintenance Marine Corps appropriation should be credited since it is the expense appropriation that funds the repair of the items.

D. CREDIT RETURNS TO SECONDARY ACTIVITIES

As indicated previously all funds received by Marine Corps Logistics Base, Albany from Secondary Inventory Control Activities are credited to the Procurement Marine Corps allotment. One designated purpose for this is to provide the funds from credits to Secondary Inventory Control Activities when unserviceable repairable items are returned. Funds received by Marine Corps Logistics Base, Albany are in fact credited to the procurement allotment. However, credits are not issued from the same allotment. [Ref. 3] Current procedures require that credits to Secondary Inventory Control Activities cite a procurement

allotment maintained at Headquarters Marine Corps. This procedure was established because the allotment at Headquarters which receives credits from a variety of sources has sufficient continuous balance to insure funds are always available to issue credits. [Ref. 3] Marine Corps Logistics Base Albany has been assigned financial responsibility for program execution of the Nonconsumable Items Program. [Ref. 4] Fragmentation of activities associated with this responsibility may not be the most appropriate way to organize the program.

E. SECONDARY ACTIVITY PROCUREMENT VERSUS REPAIR

Similar questions can be raised of what is being purchased by Marine Corps Logistics Base, Albany's role as the Marine Corps Secondary Inventory Control Activity. All requisitions submitted to other service Primary Inventory Control Activities cite Procurement Marine Corps funds regardless of an unserviceable repairable carcass being returned or not. Again, the issue is whether the funds are supporting the cost of procurement or the cost of repair. Based on the same argument used for the Primary Inventory Control Activity reimbursable policy, the conclusion is that when an unserviceable item is returned, then the cost of repair is being funded. Thus, in these instances, the funds are to support an expense not an investment and Operation and Maintenance funds should be cited as opposed to Procurement funds.

F. ALBANY AS PRIMARY AND SECONDARY ACTIVITY

When Marine Corps Logistics Base Albany functions as both the Primary and Secondary Inventory Control Activity a significant volume of transactions occurs. The previous chapter mentioned that in this circumstance there would not

be any financial transactions since the Marine Corps would not charge itself for items issued. Considering that the Marine Corps has but one Inventory Control Point and has highly centralized management of nonconsumable items, this arrangement is quite workable and minimizes the amount of financial transactions required to manage the program. [Ref. 5] Since all financial responsibility under this arrangement occurs at the Primary Inventory Control Activity level, investment costs are borne by the Procurement appropriation. As long as the program is funded by the Procurement and Operations and Maintenance appropriations, the current procedure seems a workable and efficient means for handling those items for which the Marine Corps is both the Primary and Secondary Inventory Control Activity.

G. PROGRAM FLEXIBILITY

A possible criticism of the current procedure is a lack of flexibility to meet changing requirements. This is particularly evident if there is a sudden unplanned increase in the number of unserviceable repairable items being returned. Under the current procedure all repair requirements are budgeted annually and submitted as part of the Operations and Maintenance Marine Corps budget. This requires the estimation of the repair requirement as much as a year in advance. In the event that repair requirements significantly increase over the estimate there is no means to absorb this cost other than to reprogram within the Operations and Maintenance Marine Corps appropriation. This obviously reduces the funding available to other programs not associated with the Nonconsumable Items Program. Because funds received from Secondary Inventory Control Activity requisitions are credited to the Procurement Marine Corps appropriation they are not available to support the repair

requirement. Consequently, the use of using customer revenues to fund repairs as intended is lost. [Ref. 1]

Changes in procurement requirements can more easily be accommodated. Since requisitions are funded and credited to the Procurement appropriation funds, are more likely to be available for changes to investment requirements.

H. SUMMARY

This chapter has discussed the policies and procedures currently in effect to carry out Marine Corps Logistics Base, Albany's financial management responsibilities associated with the Nonconsumable Items Program. The basis for the discussion is the purpose and intent of the appropriations involved to include key terms that relate to the program. The financing of the Primary Inventory Control Activity function and the applicable appropriations were evaluated with particular emphasis on the type of requirement that is being financed. The procedures for providing credits to Secondary Inventory Control Activities was also discussed for the Primary Inventory Control Activity function. The financing of repair versus investment for the Secondary Activity was reviewed. The role of Marine Corps Logistics Base, Albany as a Secondary Activity receiving support from itself as a Primary activity was also discussed. Finally, the flexibility or lack thereof in the policies and procedures in effect for the Nonconsumable Items Program was addressed.

IV. ALTERNATIVE METHODS

A. INTRODUCTION

This chapter presents several alternative methods for financing the Nonconsumable Items Programs. Included in the discussion of each alternative is the anticipated benefits to be derived and potential constraints and disadvantages that may be encountered. The alternatives to be discussed include:

1. The establishment of a separate appropriation specifically designed to accommodate the Nonconsumable Items Program.
2. Stock Funding of the Nonconsumable Items Program.
3. Include funding of repairables in the Procurement Marine Corps appropriation.
4. Fund the Nonconsumable Items Program from either the Procurement or Operations and Maintenance Marine Corps appropriation, including the capability to transfer funds between appropriations.
5. Apply funds received to the appropriation dependent on whether an unserviceable repairable item is returned or not.
6. Do not change the procedures and continue to manage the financial aspects of the Nonconsumable Items Program as currently outlined.

B. A SEPARATE APPROPRIATION

Establishing a separate appropriation specifically designed to accommodate the Nonconsumable Items Program may be the most desirable and yet the least likely alternative to realistically achieve. Benefits to be derived from this

approach are numerous. For instance, by establishing such an appropriation simplicity is gained. All funds going in and disbursed from Marine Corps Logistics Base, Albany for the Nonconsumable Items Program would be in only one appropriation. Budgeting would involve only one appropriation where currently repair is budgeted in the Operations and Maintenance Marine Corps appropriation and investment requirements, such as washout rates, are included in the Procurement Marine Corps appropriation.

When establishing a new appropriation the most desirable method would be to establish a revolving fund as opposed to an annual appropriation. A revolving fund is established to finance a cycle of operations for which reimbursement and collections are returned to the fund to maintain the principal or corpus of the fund. This would reduce the dependency on the Congressional process experienced by the non revolving annual and multiyear appropriations. Specifically, once the corpus is established recurring requirements are reimbursed by the customers negating the need for annual congressional appropriation action except to meet unusual or exceptional expenses that may occur. Additionally, with the use of surcharges to support overhead costs such as inventory damage, loss, and obsolescence, the annual appropriation requirement is further reduced.

Using a single appropriation enhances the financial flexibility of the program. Expenditures to support either repair or procurement would not be affected by the application of the funds received from the customers. The managers of the program would have the flexibility to apply funds to meet the most urgent customer requirements whether it be through procurement of new items or repair of old.

Although several advantages exist for establishing a new appropriation, it is purely a speculative proposal that may be very difficult to achieve if desired. First, the size of the Nonconsumable Items Program may not, at this time, be sufficiently large to receive serious consideration at the Department of Defense, Office of Management and Budget and Congressional levels. Second, the establishment of an additional revolving fund and deletion of the items from the annual and multiyear appropriation may be viewed by Congress as an attempt to subvert its prerogative and control in the budgetary process. [Ref. 7] Therefore, the establishment of a separate appropriation may be the most efficient means for financing the Nonconsumable Items Program, however this approach may not be realistically achievable in the near term.

C. STOCK FUNDING

Stock funding, like establishing a separate appropriation has many advantages over the current two appropriation process. First, the stockfund approach offers greater flexibility to the wholesale management of the Nonconsumable Items Program. Unlike the procurement appropriation which has \$5 million threshold on reprogramming authority, the stockfund is free of this constraint. Thus the wholesale manager obtains the flexibility to apply available resources to either procurement of new items or repair of unserviceable items and most efficiently and effectively meet customer demand.

The stock fund, as a revolving fund, is less dependent on the annual appropriation process. Because it maintains a corpus and relies on customer funded requisitions to maintain itself, it has a continuous balance of funds. This is significant when events such as continuing resolutions occur

which restrict the available funds to other type appropriations. The stock fund does rely on the budget process to meet unusual requirements such as war reserve requirements that are held for contingency rather than sales to customers. However, this has minimal impact on the ongoing customer demand.

Like the proposal to establish a single appropriation, the stock fund offers the simplicity of using a single source to meet all requirements and a single budget process requirement rather than for two

separate appropriations. Unlike the single appropriation alternative, it has a significant advantage in that a stock fund already exists in the Marine Corps. To use the stock fund for the Nonconsumable Items Program would only require the shifting of these items between the appropriations. The precedence for this has been set with the Navy funding of depot level repairables in the Navy Stockfund.

There are also disadvantages that apply to the stock fund alternative. This alternative would create a situation where the Marine Corps would be buying from itself. In order to obtain items from the stock fund to support the Secondary Inventory Control Activity requirements, Marine Corps Logistics Base, Albany would to budget funds in either the Procurement Marine Corps or Operations and Maintenance Marine Corps appropriations or both. Stock funding also gives rise to other questions such as: would Marine Corps users continue to get free issues from the Marine Corps Secondary Activity or would they pay for their requirement?

Another potential disadvantage is the current credit policy of 65% return to Secondary Inventory Control Activities when an unserviceable repairable item is received. Whenever the experienced repair cost would exceed the 35% of standard price, then a drain on the stock fund corpus would occur. If this occurred frequently, the impact

would not only be deleterious to the Nonconsumable Items Program, but to all items managed by the stock fund because of the shrinking corpus. However, this could be avoided by applying administrative restrictions on the use of other than Nonconsumable Items Program revenues to support the Nonconsumable Items Program.

D. REPAIR FUNDING USING PROCUREMENT MARINE CORPS FUNDS

By including the ability to fund repair within the Procurement Marine Corps appropriation some of the advantages associated with stock funding and a single appropriation are gained. The simplicity of using only one appropriation for budgeting and execution is obtained. However, the same flexibility that exists in revolving funds is not realized with this alternative because the \$5 million threshold on reprogramming remains as it is with the current design. Further this change would require legislative action. As Maloney indicates, the approval of such a change by the Office of the Secretary of Defense, Office of Management and Budget, and the Congress is highly speculative. Repair costs are an expense, not investment, and previous efforts to include such costs in procurement appropriations have not been successful. Additionally, because the Procurement Marine Corps appropriation is a multiyear appropriation that is submitted to Congress on an annual basis, the process is more susceptible to the vagaries of the legislative process than the use of a revolving fund.

E. APPLY CREDITS TO BOTH APPROPRIATIONS

This alternative consists of two variations which essentially accomplish the same purpose, that is, to ultimately apply funds received from requisitioners to the purpose for which they are intended, either expense or investment. Both

variations allow for the continued use of the Procurement Marine Corps and Operation and Maintenance Marine Corps appropriations for financing the Nonconsumable Items Program.

1. Direct Application of Funds

This variation calls for the application of funds received from a customer to the Procurement or Operations and Maintenance appropriation, dependent on the return of a repairable carcass. Specifically, if a Secondary Inventory Control Activity submits a funded requisition and a repairable carcass is not returned then the fund would be credited to the Procurement appropriation. On the other hand if a repairable carcass was returned the net 35% of standard price would be credited to the Operations and Maintenance appropriation. This procedure would align the application of funds with the intended purposes of the appropriations. This alternative requires the identification of requisitions to carcasses. This may not be as simple as it appears, since some complications do occur in this area. Currently, identification of returned carcasses to specific requisitions is not always easily accomplished. [Ref. 8] since some complications do occur in this area.

2. Transfer from Procurement

Another variation of this same alternative is to continue to apply all funds into the Procurement appropriation and, when it is determined that a requisition with a repairable carcass is received, transfer the net 35% of standard price to the Operations and Maintenance appropriation. This accomplishes the same objective of applying funds to investment and expense accounts as the intended purposes would indicate. This could possibly alleviate problems of tracking requisitions and carcasses since the

transfer would not necessarily have to occur immediately when funds are received.

3. Disadvantages

At least three distinct disadvantages are apparent with this alternative. First, in the case of the transfer, legislative change is required in order to obtain the capability. Second, there is no real improvement in program management flexibility with either variation. Managers would not gain the opportunity to apply funds to the most critical need. Funds would be specifically allocated to either procurement or repair. Third, both methods could be cumbersome to manage because of the additional requirements for segregation of funds and tracking of requisitions and carcasses.

F. PROCEDURES LEFT UNCHANGED

As with any list of alternatives there is always the choice to not change. In this instance there are advantages to doing just that. First, the Nonconsumable Items Program is new and little experience has been gained. Therefore, it might be wise to observe the existing procedures, obtain some historical data to determine areas that need improvement, and then evaluate the need for change. Although the current procedures may be criticized because they do not necessarily adhere to the intended use of the appropriations involved, they are relatively simple and uncomplicated. Because credits are only applied to the Procurement Marine Corps appropriation, decision criteria are minimized.

G. SUMMARY

This chapter has offered several alternatives to existing procedures for the management of the Nonconsumable Items Program. These alternatives vary from the establishment of a new appropriation, to stock funding of the program. Included in the review of the alternatives is a discussion of the associated advantages and disadvantages. In the succeeding chapter the alternatives are to be evaluated and recommendations are presented.

V. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

A. SUMMARY

This thesis has provided an analysis and description of the financial management of the Nonconsumable Items Program as it applies to Marine Corps Logistics Base, Albany, Georgia. Included are both the Primary and Secondary Inventory Control Activity functions.

Chapter II provided a general overview of the Nonconsumable Items Program as it currently exists. Both the wholesale and retail responsibilities were discussed. The concept for financial management as a reimbursable system was presented. The billing process and the return of unserviceable repairable items for credits from Secondary Inventory Control Activities was described. The use of the Procurement Marine Corps and Operations and Maintenance Marine Corps appropriations for financing the Nonconsumable Items Program was established. The funding process and the budgetary process were also discussed.

Chapter III contains a description of the existing procedures that are used to finance the Nonconsumable Items Program within the Marine Corps. First, a discussion of the appropriations, including the distinction between investment and expense criteria is presented. This is followed by a comparison and evaluation of the intent to procure and repair items, and how the appropriations apply to Nonconsumable Items Program. The procedures and concepts applied to credits and their conceptual application are discussed, followed by a discussion of repair and procurement as they relate to the Nonconsumable Items Program. Finally, Marine Corps Logistics Base, Albany's role as a

Primary and Secondary Inventory Activity is presented followed by a brief discussion of the program.

Chapter IV provides several financial management alternative procedures for managing the Nonconsumable Items Program. These range from establishing a single appropriation and stockfunding to not changing existing procedures. Included with each alternative are the associated advantages and disadvantages.

B. CONCLUSIONS

1. Program flexibility can be improved

Currently little flexibility exists to allow program managers to exercise procurement or repair options as required. The repair funds are strictly tied to the budget process while procurement is influenced by the credit process and budget process. There is the possibility that funds could be available in the Procurement appropriation and not the Operations and Maintenance appropriation. Repair could be a more economical alternative to pursue that the manager is unable to pursue if funds are only available in the Procurement Marine Corps appropriation. manager is unable to pursue.

2. More simplicity can be achieved

The use of two appropriations unnecessarily complicates the execution of the program. The program currently necessitates the budgeting of requirements in two separate appropriations. This necessitates twice the amount of review and increases the likelihood of elements of the program to be reduced or eliminated in the process. Accounting is spread between two appropriations as well, which does not increase the number of transactions, but does increase the number of accounts to be managed.

3. Dispersion of management functions should be eliminated

Currently the issuance of credits by Marine Corps Logistics Base, Albany as a Primary Inventory Control Activity to Secondary Inventory Control Activities cites an allotment held by Headquarters Marine Corps and Albany. The organization given responsibility for program management should control and be accountable for the associated functions and activities necessary to carry out the program.

[Ref. 9]

4. Appropriations are not credited by activities performed

All credits are received by the Procurement Marine Corps appropriation whether or not the carcasses are returned by the Secondary Inventory Control Activities. As indicated in Chapter III it was clearly intended that Secondary Inventory Control Activities to fund repair cost when an unserviceable repairable item is returned. In this instance the credit should be applied to the Operations and Maintenance Marine Corps appropriation.

C. RECOMMENDATIONS

The recommendations that follow are presented in descending order. This does not necessarily indicate that the recommendations that are the most desirable are easily implemented. Conversely, for that reason, the latter recommendations may not be the most desirable, however may be realistically implemented.

1. Use a single appropriation

This recommendation can be accomplished in two ways. First, by the establishment of a new appropriation that specifically meets the needs of the Nonconsumable Items Program. This option is probably not realistically achievable because of political constraints and it would require significant systems changes. [Ref. 10]

The second option for a single appropriation is to stock fund the Nonconsumable Items Program. Chapter IV presented several advantages for this option, the most significant being the simplicity and flexibility it offers for the program manager. This option is also attainable and can be accommodated in existing and developing systems.

2. Credit appropriations for expense and investment

If the Procurement and Operations and Maintenance Marine Corps appropriations are going to continue to be used for financing the Nonconsumable Items Program then the credits should be applied based on whether the customer is paying for repair or is investing in procurement of new items.

3. Fund expense and investment from the appropriate accounts

In concert with the previous recommendation Marine Corps Logistics Base, Albany as a Secondary Inventory Control Activity should use the Operations and Maintenance appropriation for the funding of repair when returning unserviceable repairable items to a Primary Inventory Control Activity of another service.

4. Consolidate all functions at Albany

All management functions should be accomplished by the designated program manager. This should include the management of credits to other activities.

D. PREFERRED OPTION

The stock fund is the recommended alternative, because of the simplicity and flexibility that can be achieved using the stock fund, and its existence within the current appropriation structure. The stockfund alternative enables the consolidation of all functions at Albany. Associated disadvantages like the potential negative impact on other stockfund managed items can be dealt with by internal administrative restrictions.

APPENDIX A
DEFINITIONS

Allotment. In the Department of the Navy an allotment is defined as an authorization granted, within and pursuant to an allocation or suballocation, to an office, bureau, command, Headquarters Marine Corps, naval command, activity or component of operating forces for the purpose of incurring commitments, obligations, and expenditures within a specified amount pursuant to the purpose for which the allotment was granted and in accordance with instructions issued by the administering office. [Ref. 11]

Annual Appropriation. An appropriation which is available for incurring obligations only during one fiscal year specified in the appropriation act. [Ref. 11]

Continuing Resolution. The intent of the continuing resolution is to provide funds to maintain operations at a minimum rate necessary for the orderly continuation of activities until regular appropriations are enacted. The appropriation language normally provides for amounts as may be necessary to continue operations in support of projects or activities which were conducted in the preceding fiscal year, at a rate of obligation not in excess of the previous year's rate, or the rate provided for in the President's budget whichever is the lower or more restrictive. [Ref. 6]

Expense. An expense is an item which contributes to the current support of an activity. Expenses include labor costs (military as well as civilian), materials consumed in use, and services received by the activity which relate to its on going operations. Material is considered an expense when it is consumed upon issue to the final user or issued to be shortly consumed thereafter. The following specific items of material will be treated as expenses:

1. End items of equipment of less than \$3000.00 unit value over which an inventory control point does not maintain centralized individual item management.
2. Nonrepairable spares and repair parts.
3. Assemblies, spares and repair parts which, although repairable, are not centrally managed recoverable items, and are not designated as repairable by central inventory managers.
4. Food, clothing, and POL items.
5. All items issued from working capital inventories to the point of farthest transfer or most likely end use.

Other items to be treated as expenses are costs of maintenance, repair, overhaul or rework of investment items, services received from others (provided that costs of the service can be measured feasibly and with reasonable accuracy) and rental payments for leased equipment and facilities on leases initiated by Department of Defense activities. [Ref. 6]

Investment. Investment costs are those associated with the acquisition of equipment and real property. Such costs give rise to long-lived assets from which benefits accrue to DoD activities over a long period of time, and which therefore should not be charged as a single year operation expense. The following types of expenditures are investments:

1. Major end items of equipment.
2. Other end items of equipment excluding those of less than \$3000.00 unit value which are not centrally managed by individual item.
3. Centrally managed repairable assemblies, spares and repair parts.
4. Construction (including cost of the land and rights).

[Ref. 6]

Marine Corps Stock Fund. The Marine Corps Stock Fund is characterized as a working capital fund. One of several of the Department of Defense, it consists of the unexpended balance of cash on deposit in the Treasury, stocks of supplies, materials and equipment, and all other assets pertaining to or acquired in the financing of such stocks, subject to all liabilities incurred in connection with such financing. The Marine Corps Stock Fund holds in suspense the costs of consumable material from the time the material is acquired until it is issued for use. Its value as a management and financing technique is apparent in its relationship to the accrued expense accounting system employed in the Operation and Maintenance, Marine Corps appropriation. The fund finances the procurement of consumable materials, minor items of equipment, and parts and components used in the manufacture and rebuild of end items of equipment. Inventories include electronic parts, engineer material and parts, general property, clothing and textiles, motor transport parts, ordnance parts, subsistence, and fuel. [Ref. 12]

Multiple Year Appropriation. An appropriation which is available for incurring obligations for a definite period in excess of one fiscal year. [Ref. 6]

Procurement, Marine Corps. The Procurement, Marine Corps appropriation provides obligation authority for procurement of equipment that is considered to be of an investment nature, as distinguished from expense-type items. The appropriation provides funds to procure major items of combat and commercial equipment, munitions, and end items of equipment which meet the investment cost criteria. It also provides funds for support of initial outfitting spares requirements and life cycle replenishment of depot level repairable spares washout. [Ref. 12]

Operating Budget. The operating budget under the RMS concept consists of an approved operating plan which is the basis of authorization and financial control of resources available for the execution of program or programs at the indicated organizational or command level. [Ref. 6]

Operation and Maintenance Appropriations. The appropriation for operation and maintenance includes officer and troop training, recruiting, and funds for such diverse functions as administration; operation of the supply system; maintenance of material; medical and dental care; personnel support activities such as messes, barracks, BOQ's, service clubs, commissaries, etc.; maintenance and repair of real property; operation and purchase of utilities; minor construction; engineering support; and other base services, such as motor transport, communications, security, etc. [Ref. 12]

Revolving Fund. A revolving fund is a fund established to finance a cycle of operations to which reimbursements and collections are returned for reuse in such a manner as to maintain the principal of the fund; for example, loan funds and working capital funds such as stock funds and industrial funds. The capital amount of a fund may be in the form of cash, inventory, receivables, or other assets. [Ref. 11]

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